

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4452-04  
Bill No.: HCS for HB Nos. 1589 & 2307  
Subject: Education, Elementary and Secondary; Tax Credits; Social Services, Department of  
Type: Original  
Date: April 15, 2015

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Bill Summary: This proposal authorizes a tax credit for donations to a fund established for the provision of scholarships to foster care children.

**FISCAL SUMMARY**

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	(Could Exceed \$25,014,952)	(Could Exceed \$29,810,928)	(Could Exceed \$29,808,036)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(Could Exceed \$25,014,952)</b>	<b>(Could Exceed \$29,810,928)</b>	<b>(Could Exceed \$29,808,036)</b>

**Note:** The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 10 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>
General Revenue	2 FTE	3 FTE	3 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>2 FTE</b>	<b>3 FTE</b>	<b>3 FTE</b>

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>
<b>Local Government</b>	<b>Unknown</b>	<b>Unknown</b>	<b>Unknown</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials at the **Department of Elementary and Secondary Education (DESE)** assume §135.713 enacts a tax subsidy not to exceed \$25 million, which amount shall be annually adjusted by the Department of Economic Development for inflation based on the consumer price index for all urban consumers for the Midwest region. Tax subsidies reduce the state's tax revenues and decrease the amount of money available for public schools and all public school students.

§166.710.2 The frequency language of the audits is not clear. As written, it appears DESE would conduct random audits, quarterly audits, and annual audits. For each account, this could mean at least 7 audits per year (2 random, 4 quarterly, and 1 annual). \$5,000 per audit (7 per year) = \$35,000 per account. DESE cannot predict the potential number of accounts.

**Oversight** will show an impact of Could exceed \$100,000 for the audits annually.

§166.710.4

(3) DESE would incur unknown costs to create an online anonymous fraud reporting service.

(4) DESE would incur unknown costs to create an anonymous telephone hotline for fraud reporting.

(5) DESE would incur unknown costs to acquire surety bonds for account holders.

**Oversight** will show one time cost of Could exceed \$100,000 to create the online anonymous fraud reporting service and the anonymous telephone hotline for fraud reporting.

§135.2000 Tax subsidies reduce the state's tax revenues and decrease the amount of money available for public schools and all public school students. The program appears to be limited to \$5 million annually.

§210.1500 DESE will likely incur costs to prepare and maintain a searchable database containing statewide assessment scores of all recipients; however, those costs will not likely be significant.

Officials at the **Department of Revenue (DOR)** assume §135.713 creates a tax credit for taxes due under Chapters 143 and 153 for 100 percent of contributions to an educational assistance organization. The tax credits may not exceed \$25 million per fiscal year but the cap is adjusted for inflation. The Director of the Department of Economic Development establishes a procedure

ASSUMPTION (continued)

that allows for equal apportionment among the organizations to the maximum extent possible if the annual cap is exceeded.

Personal Tax requires two Revenue Processing Technicians I for tax credit redemption and tax credit transfers. Corporate Tax requires three Revenue Processing Technicians I for tax credit redemptions, tax credit transfers, correspondence.

The new Integrated Tax System incurs additional costs of \$65,520 to implement the provisions of this legislation.

§135.2000 Beginning with tax year 2017, a taxpayer is authorized a tax credit of 50 percent of the amount contributed to a qualified agency evidenced by a contribution verification issued to the taxpayer. Before December 31 of each year, the Department of Social Services provides the Department of Revenue with a list of qualified agencies. This tax credit cannot exceed 50 percent of the taxpayer's state tax liability and the legislation sets the cap at \$25,000 per taxable year. To qualify, contributions must be at least \$100, but no more than \$50,000.

The Department requires form and programming changes at a rate of \$75 for 504 hours for an approximate cost of \$37,800. The integrated tax system incurs additional costs of \$65,146 to implement the provisions of this legislation.

Personal Tax requires one Revenue Processing Technician I for tax credits claimed. Corporate Tax requires one Revenue Processing Technician I for tax credits redeemed. Collections & Tax Assistance will see additional customer contacts about the tax credit and notice of adjustments. The section requires two Tax Collection Technicians I for contacts on the delinquent and non-delinquent lines. Each technician requires CARES equipment and license.

In summary, DOR has requested 9 additional FTE at an approximate cost of \$150,000 per year for salary and fringe benefits, approximately \$63,000 in FY 17 for equipment and expenses and \$11,000 every year thereafter, and a one time cost of \$168,466 for computer programming.

**Oversight** assumes DOR could perform the responsibilities of this proposal with 1 FTE. Should DOR experience the number of additional tax credit redemptions to justify another FTE, they could seek that FTE through the appropriation process.

Oversight has, for fiscal note purposes only, changed the starting salary for the Revenue Processing Technician I (\$25,884) to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual

ASSUMPTION (continued)

starting salaries for new state employees over the last six months and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

Officials at the **Office of Administration's Division of Budget and Planning (BAP)** assume this proposal would establish the "Missouri Empowerment Scholarship Accounts Program" and create a tax credit for individuals and certain businesses that make qualifying contributions to an educational assistance organization, beginning January 1, 2016. Taxpayers may claim a tax credit for an amount equal to 100% of their contribution, but the amount cannot exceed their state tax liability for the tax year in which the credit is claimed. Issuances of these tax credits are capped at \$25,000,000 annually, but that amount must be annually adjusted by Department of Economic Development (DED) based on the consumer price index for all urban consumers in the Midwest region.

DED could receive no more than 2% of the qualifying contributions for marketing and administrative expenses or for the costs incurred in administering the programs, whichever is less. The department would need to establish spending authority through the appropriations process in order to utilize these funds for any expenses.

This proposal would create a tax credit for individuals or certain companies that make contributions to the foster child education fund, beginning January 1, 2017. Taxpayers can claim a tax credit for an amount equal to 50% of their contribution, but the amount cannot exceed either 50% of their state tax liability for the year or \$25,000. Issuances of these tax credits are capped at \$5,000,000 annually. This proposal could, therefore, reduce General Revenues by \$5,000,000 annually beginning in FY18. BAP notes the total amount of credits which are issued but not redeemed is capped at \$15,000,000 in any fiscal year.

Through the creation of the two new tax credit programs, this proposal could reduce general revenues by \$25,000,000 starting FY17, and then up to \$30,000,000 annually beginning in FY18. Because the proposal also directs that Empowerment program maximum be adjusted for inflation, this proposal may reduce General and Total State Revenues by additional amounts in subsequent years.

In response to similar legislation filed this year, SB 609, officials at the **Department of Economic Development (DED)** assumed they would be required to administer the program. This would require reviewing and issuing credits, ensuring educational assistance organizations meet their obligations under the law, and promulgating rules to implement the program. This would require DED hire two FTE. The estimated FTE cost is \$146,486 in FY 2017.

ASSUMPTION (continued)

**Oversight** notes this proposal allows DED to receive up to 2% of the qualifying contributions for marketing and administration. Due to the cap of the tax credit, Oversight assumes this tax credit will be largely utilized. Therefore, Oversight will show 2% of the annual cap (\$25,000,000 x 2% = \$500,000) as a revenue to DED.

Officials at the **Office of the State Treasurer** and the **Joint Committee on Administrative Rules** each assume no fiscal impact from this proposal to their respective organizations.

**Oversight** notes there could be a savings to the local subdivisions if the scholarships provided by the Foster Child Education Fund allow children that previously attended public schools to attend private schools. **Oversight** notes that the program could affect the Foundation Formula distribution. **Oversight** assumes the net effect on all school districts would be zero.

**Oversight** assumes \$135.713 of this proposal begins with tax years starting January 1, 2016, and therefore, the first time this would be claimed on a taxpayer's tax return would be FY 2017. Oversight will reflect the impact as \$0 (no credits claimed) to the \$25 million annual cap in FY 2017 and \$0 (no credits claimed) to Could Exceed \$25 million in FY 2018 & 2019.

**Oversight** assumes \$135.2000 of this proposal begins with tax years starting January 1, 2017, and therefore, the first time this would be claimed on a taxpayer's tax return would be FY 2018. Oversight will reflect the impact as \$0 (no credits claimed) to the \$5 million annual cap.

In response to a previous version, officials from the **Office of the Secretary of State (SOS)** stated many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

**Oversight** assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
<u>Revenue Reduction</u> - creation of tax credit §135.2000 & §210.1500 (50%) for donations to provide scholarships for children in protective custody	\$0	\$0 to (\$5,000,000)	\$0 to (\$5,000,000)
<u>Revenue Reduction</u> - creation of educational assistance tax credit §135.713 (100%)	\$0 to (\$25,000,000)	\$0 to (Could Exceed \$25,000,000)	\$0 to (Could Exceed \$25,000,000)
<u>Revenue</u> - DED - collection of 2% fee §135.716.5 (\$25m x 2% = \$500,000)	Up to \$500,000	Up to \$500,000	Up to \$500,000
<u>Cost</u> - DESE - audit §166.710.2	(Could Exceed \$100,000)	(Could Exceed \$100,000)	(Could Exceed \$100,000)
<u>Cost</u> - DESE - one time setup of on-line and telephone fraud reporting systems §166.710.4	(Could Exceed \$100,000)	\$0	\$0
<u>Cost</u> - DED			
Personal Service	(\$86,820)	(\$105,226)	(\$106,278)
Fringe Benefits	(\$40,539)	(\$48,932)	(\$49,219)
Equipment and Expenses	(\$19,127)	(\$7,833)	(\$8,030)
<u>Total Cost</u> - DED	(\$146,486)	(\$161,997)	(\$163,527)
FTE Change	2 FTE	2 FTE	2 FTE
<u>Cost</u> - DOR			
Personal Service	\$0	(\$25,884)	(\$26,143)
Fringe Benefits	\$0	(\$15,482)	(\$17,234)
Equipment and Expenses	\$0	(\$7,565)	(\$1,132)
Integrated System Changes §135.713	(\$65,520)	\$0	\$0
Integrated System Changes §135.2000	(\$65,146)	\$0	\$0
Computer Programming	(\$37,800)	\$0	\$0
<u>Total Cost</u> - DOR	(\$168,466)	(\$48,931)	(\$44,509)
FTE Change - DOR	0 FTE	1 FTE	1 FTE
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b>(Could Exceed \$25,014,952)</b>	<b>(Could Exceed \$29,810,928)</b>	<b>(Could Exceed \$29,808,036)</b>

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2017 (10 Mo.)	FY 2018	FY 2019
Estimated Net FTE Change on General Revenue	2 FTE	3 FTE	3 FTE

**Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.**

<u>FISCAL IMPACT - Local Government</u>	<u>FY 2017</u> (10 Mo.)	<u>FY 2018</u>	<u>FY 2019</u>
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#### **LOCAL SUBDIVISIONS**

Savings - scholarships allow children that previously attended public schools to attend private schools

<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
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#### **NET EFFECT ON LOCAL SUBDIVISIONS**

<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
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#### FISCAL IMPACT - Small Business

Small businesses that qualify for the tax credits could be positively impacted.

#### FISCAL DESCRIPTION

Beginning January 1, 2017, this bill authorizes a tax credit equal to 50% of a taxpayer's cash donations to be used solely for providing scholarships to eligible recipients to attend a private elementary or secondary school in this state. For the donation to qualify for this credit, it must be at least \$100 and not more than \$50,000. The credit is limited to 50% of the taxpayer's state tax liability for the taxable year the credit is claimed, cannot exceed \$25,000 per taxpayer, per taxable year, and is capped at \$5 million per fiscal year and issued but not redeemed credit at \$15 million per fiscal year. The credit cannot be refunded, or sold, but can be carried forward for three years.

An eligible recipient is a school-aged child enrolled in grades K- 12 in state protective custody for at least 12 of the last 48 months. The credit is available to individuals, firms, partners, limited liability company members, shareholders, corporations, insurance companies, financial institutions, political subdivisions, express companies, and charitable organizations with



FISCAL DESCRIPTION (continued)

Missouri unrelated business taxable income.

A scholarship is an annual grant to eligible recipients to cover all or part of the applicable tuition and fees at a qualified school. The amount must be the lesser of the previous year's tuition and fees for non-scholarship students at the qualified school or 90% of the previous year's average current expenditure per average daily attendance for the student's district of residence or the tuition amount set by the voluntary interdistrict coordinating council for the student's district of residence, if applicable. Any scholarship recipient will continue to be eligible to receive his or her scholarship upon a legal adoption, or after graduation from the qualified school he or she first received a scholarship if attending a new qualified school.

The Department of Elementary and Secondary Education will establish rules to implement this credit, issue tax credit certificates, grant scholarships, and prepare and maintain an easy-to-search database containing statewide assessment scores of all scholarship recipients.

This bill establishes the "Missouri Empowerment Scholarship Accounts Program" (§135.713 - §135.716 and §166.705 - §166.720) to help ensure the education of students in Missouri.

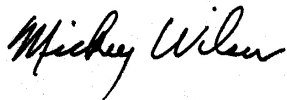
Education Assistance Organization Tax Credit (§135.713) - Beginning in tax year 2016, a taxpayer may make a qualifying contribution to an educational assistance organization and claim a tax credit, as specified in the bill. The tax credit is for 100% of the amount of the contribution. The tax credit may be carried forward for four years and may be transferred, sold, or assigned. The annual cumulative amount of tax credits is limited at \$50 million, which will be adjusted for inflation. The Director of the Department of Economic Development must establish a procedure to apportion the amount of tax credits amongst all educational assistance organizations. The director may reapportion those tax credits to educational assistance organizations that have used all, or a certain percentage, of their tax credits.

Provisions of §135.713 - §135.716 will sunset six years after the effective date of this proposal.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Elementary and Secondary Education  
Department of Revenue  
Office of Administration's Division of Budget and Planning  
Office of the State Treasurer  
Joint Committee on Administrative Rules  
Office of the Secretary of State  
Department of Economic Development



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